

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 ISO-00 SP-02 ICA-11 AID-05
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 L-03
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FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 343
INFO AMEMBASSY PARIS

C O N F I D H H N T I A L SEOUL 2871

PARIS FOR OECD ONLY

E.O. 11652: GDS
TAGS: ETRD, EAID, EFIN, KS
SUBJ: BRINGING LDC'S INTO FUTURE EXPORT CREDIT CONSENSUS

REF: (A) STATE 83355, B) 77 SEOUL A-98, C) PARIS 9403, D) SEOUL 2398

1. THE FOLLOWING INFORMATION ON KOREA'S EXPORT-IMPORT BANK
IS KEYED TO THE LIST OF QUESTIONS ASKED IN PARA (5) OF REF
(A). SEE REF (B) FOR FURTHER BACKGROUND INFORMATION.

(A) THE KOREA EXPORT-IMPORT BANK (KEIB).

(B) KEIB IS SEMI-AUTONOMOUS GOVERNMENT ENTITY FALLING
UNDER THE GENERAL SUPERVISION OF THE MINISTRY OF FINANCE.
FOLLOWING CERTAIN ADJUSTMENTS IN 1978, ITS CAPITAL STOCK OF
35.0 BILLION WON (\$72.3 MILLION) WILL BE OWNED BY THE
GOVERNMENT (5 BILLION WON) AND BY THE GOVERNMENT-OWNED
KOREA EXCHANGE BANK (30. BILLION WON). KEIB'S ANNUAL
OPERATIONAL PROGRAM MUST BE APPROVED BY THE MINISTRY
OF FINANCE.

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(N) METHOD OF FINANCING: ARTICLE 18 OF THE IMPE-
MENTING ACT AUTHORIZES THE FULL RANGE OF ACTIVITIES
INCLUDING CREDIT INSURANCE, CREDIT GUARANTEES, AND
CREDIT EXTENSION TO BUYER AS WELL AS SELLER. TO DATE,
CREDIT GUARANTEE BUSINESS HAS NOT BEEN PERFORMED, AND
THE MAJORITY OF BUSINESS CONSISTS OF BUYER CREDITS.

(D) SOURCES OF CREDIT: CAPITAL SUBSCRIPTIONS AS DETAILED ABOVE; BORROWINGS FROM GOVERNMENT, NATIONAL INVESTMENT FUND, KOREA EXCHANGE BANK, AND OTHERS; EARNINGS FROM LOANS; AND CREDIT LINES AND SALE OF PROMISSORY NOTES OVERSEAS. THE LATTER SOURCE OF FUNDS IS VIEWED AS A SIGN OF THE BANK'S GROWING STATURE IN INTERNATIONAL MARKETS, AND THOUGH RELATIVELY MINOR TO DATE, IS EXPECTED TO BECOME INCREASINGLY IMPORTANT.

(E)

BHARGES AND COSTS (ANNUAL RATES):

- (1) PREMIUM RATE FOR INSURANCE: 0.23 PERCENT TO 1.0 PERCENT, DEPENDING ON BUYER, AMOUNT, REPAYMENT PERIOD, ETC.
- (2) GUARANTEE FEE: COMMERCIAL BANKS CHARGE AN AVERAGE 2.0 PERCENT.
- (3) COMMITMENT FEE: 0.25 PERCENT FLAT.
- (4) OTHER CHARGES: NONE.
- (5) INTEREST RATES: 8 PERCENT IS BASIC RATE; MAY BE 7 PERCENT OR 9 PERCENT DEPENDING ON MATURITY AND BORROWER'S CREDIT RATING.
- (6) COMPENSATING OFFSETS: NONE.
- (7) TOTAL EFFECTIVE COST: 10.62 PERCENT AVERAGE ANNUAL RATE, PLUS 0.25 PERCENT FLAT COMMITMENT FEE.

(F) RISKS ASSUMED BY KEIB: BOTH COMMERCIAL AND POLITICAL.

(G) REQUIRED CASH PAYMENT: 20 PERCENT OF CONTRACT PRICE AS DOWN PAYMENT.

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(H) SUPPLIER PARTICIPATION NORMALLY REQUIRED: 16 PERCENT OF CONTRACT PRICE. KEIB FINANCES UP TO 80 PERCENT OF TOTAL CONTRACT PRICE NET OF DOWN PAYMENT--I.E. 80 PERCENT OF 80 PERCENT, OR 64 PERCENT.

(I) REPAYMENT TERMS NORMALLY OFFERED FOR MAJOR EXPORTS: PRESENTLY 90 PERCENT OF KEIB FINANCING IS IN SUPPORT OF SHIP EXPORTS, FOR WHICH REPAYMENT IS NORMALLY ON 5-YEAR TERMS, WITH A MAXIMUM OF 8 YEARS. OTHER EXPORT ITEMS SUCH AS MACHINERY AND ROLLING STOCK ARE NORMALLY COVERED BY 3-YEAR TERMS.

(J) REPAYMENT TERMS AS A FUNCTION OF CONTRACT VALUE: NO SET RULE.

(K) DEGREES OF SECURITY REQUIRED: NORMALLY, FOR LDC'S, A CENTRAL BANK GUARANTEE, AND FOR DEVELOPED COUNTRIES, A GUARANTEE BY A LEADING COMMERCIAL BANK.

(L) OTHER COSTS: NONE.

(M) CREDITWORTHINESS RATINGS FOR EXPORT MARKETS: NOT AVAILABLE.

2. COMMENT: WE DO NOT KNOW HOW THESE PRACTICES COMPARE WITH THOSE WORKED OUT AMONG OECD MEMBERS, BUT WE SHOULD POINT OUT THAT KOREAN GOVERNMENT PROVIDES A SUBSTANTIAL NUMBER OF INCENTIVES FOR ITS EXPORT FIRMS, QUITE APART FROM THOSE OFFERED BY KOREAN EXPORT-IMPORT BANK. GETTING THE KOREANS TO MODIFY THIS BASIC POLICY WILL BE A FORMIDABLE TASK, BUT RECENT ROKG EXPRESSIONS OF INTEREST IN PARTICIPATING IN OECD ACTIVITIES (REFS C AND D) SUGGEST ONE POSSIBLE LINE OF APPROACH. A POSITIVE RESPONSE FROM OUR SIDE COULD PROVIDE US WITH A LEVER IN EVENTUALLY BRINGING ROKG PRACTICES MORE IN LINE WITH CONFIDENTIAL

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OECD PRINCIPLES.
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